

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 98-410

June 16, 1998

BANGOR HYDRO-ELECTRIC COMPANY
Application for Approval of Issue of
Securities (§902) (\$75,000,000) and
for Approval of Mortgage (§1101)
(\$82,500,000)

ORDER APPROVING ISSUE
OF SECURITIES AND
MORTGAGE OF PROPERTY

WELCH, Chairman; NUGENT, Commissioner

On June 2, 1998 Bangor Hydro-electric Company (BHE or the Company) filed with the Commission its application for authority to enter into two loan agreements with BankBoston, N.A. and Fleet National Bank (the Banks) for an aggregate total of \$75,000,000 and to issue first mortgage bonds in an aggregate total of \$82,500,000 to secure the combined borrowings. This Order approves BHE's request.

This financing involves two components, a \$45,000,000 term loan and a \$30,000,000 revolving credit facility and for the most part involves the refinancing, or "rolling over" of several of BHE's existing financing agreements. The \$45,000,000 term loan will for all intents and purposes be used to repay \$41,000,000 in currently maturing obligations, while the \$4,000,000 difference will be used to "permanently" fund a portion of the Company's existing short-term debt. One component of those current obligations noted above is the \$6,000,000 up-front payment to Penobscot Energy Recovery Company (PERC) for the restructuring of BHE's power purchase contract, approved by the Commission on October 17, 1997 in Docket No. 97-451. The \$30,000,000 revolving credit facility with the Banks will simply replace an existing \$30,000,000 revolving credit facility with another lender. Due to the status of BHE's finances, coupled with the fact that the Company has in the past year violated several financial covenants on its existing credit facilities, the current lenders are requiring that BHE provide \$82,500,000 in first mortgage bonds which results in these new obligations being overcollateralized by 10%. While this is not a situation that we would ordinarily find acceptable, it reflects the reality of BHE's current situation.

The \$45,000,000 term loan will have a maturity of 2 years and will require three quarterly principal payments of \$3,000,000 each commencing on September 30, 1999, followed by a final "balloon" payment of \$36,000,000 due on June 30, 2000. BHE expects to use a portion of the proceeds realized from the divestiture of its generation assets to pay the final installment, and this expectation is reflected in the loan agreement with the Banks. This does not conflict with the interests of the existing first mortgage bondholders as several of them have negotiated terms with the Company that prevent it from prepaying those notes. The ability to prepay this new loan without penalty is a benefit to the Company and its

ratepayers as BHE completes its divestiture process. The interest rate on the term loan is a variable rate indexed to the London InterBank Offering Rate (LIBOR)¹ plus a margin tied to the Company's bond rating. Standard & Poor's currently rates BHE's senior debt at "BB" in a private letter rating, meaning the margin on the loan is 250 basis points (2.50%) over LIBOR². Of the total amount, \$12,000,000 is subject to a rate cap where LIBOR is limited to 7.25%, meaning that the maximum rate could reach 9.75% (7.25% LIBOR + 2.50% margin) on this amount. The remaining amount is not subject to any interest rate cap. The maximum margin that BHE could be charged over and above its applicable index would be 350 basis points (3.50%) if the Company's bond rating was lowered to "BB-".

The \$30,000,000 Revolving Credit Facility has a term of 3 years from closing and will also be a variable rate instrument tied to the same indices as the term loan. It is customary for short-term revolving credit agreements to have variable rates. As is the case with the term loan, the margin over the index will be linked to BHE's bond rating and would increase if BHE's bond rating were to decline or decrease if its bond rating improved. Currently, BHE will pay a margin of 200 basis points (2.00%) over the applicable LIBOR index, with a possible range of 75 to 350 basis points.³ Besides the interest rate on borrowed amounts, BHE will also pay a "commitment fee" for the unused portion of the credit line, as is customary with revolving credit facilities. These fees are also sensitive to BHE's bond rating and can range from 25 to 62.5 basis points (0.25% to 0.625%), but will start at 50 basis points (0.50%) at closing. One final feature of the Revolving Credit Agreement is that BHE can use portions of it to establish Letters of Credit as necessary. Pricing for Letters of Credit would likewise be variable rate, tied to BHE's bond rating, range from 75 to 350 basis points (0.75% to 3.50%) over the applicable LIBOR index, and would initially be set at 200 basis points over LIBOR.

Having reviewed the application of the Company, together with data filed in support of it, it is the opinion of the Commission that the proceeds of the issuance of the bonds are required in good faith the purposes enumerated in 35-A M.R.S.A. §901. In approving this securities issue, consistent with normal practice and pursuant to 35-A M.R.S.A. §902(4), the Commission does not imply approval of the Company's capital needs or capitalization ratio for ratemaking purposes, nor does this order limit or restrict the powers of the Commission in determining or fixing any rate.

¹An alternate index is BankBoston's Base (Prime) Rate.

²Applicable margin to BankBoston's Base Rate is currently 1.50%.

³Margins range from 0 to 150 basis points if BankBoston's Base Rate is the index.

Accordingly, we:

O R D E R

1. That Bangor Hydro-electric Company is hereby authorized to enter into two loan agreements with BankBoston, N.A. and Fleet National Bank in an amount not to exceed \$75,000,000 (Term Loan of \$45,000,000 and Revolving Credit Agreement of \$30,000,000) and to issue its first mortgage bonds in connection with this borrowing in a sum not to exceed \$82,500,000 to be used solely for the purposes described in this Order.

2. That the Company report to this Commission, in writing, its doings pursuant to this Order within sixty (60) days of the date of closing of this transaction.

3. That a copy of this Order be mailed to interested parties and this Docket be closed.

Dated at Augusta, Maine, this 16th day of June, 1998.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
 Nugent

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 30 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Civil Procedure, Rule 73, et seq.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.